



# A COMPENDIUM OF CONVERGENCE FROM INDIAN ACCOUNTING STANDARDS (Ind\_As) TO IFRS

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## Abstracts

The implementation of IFRS (International Financial Reporting Standards) requires to set transition date and first reporting date. It also requires the companies to present at least one comparable set showing comparative financial statement presented under Indian GAAP and under IFRS so as to facilitate proper interpretation.

### Convergence with IFRS in India

ICAI has set the first transition date April 2010 from this date companies should start adopting IFRS and first reporting date has been set as March, 2012 by which first set of financial statements as per IFRS should be published by Indian companies. To comply with this in January 2011 ICAI has issued the draft of near final Ind-AS which correspond to IFRS. This is like a last milestone before the unveiling of the final draft of Indian Accounting Standards converged with IFRS.

### Convergence with IFRS in USA

Securities and Exchange Commission (SEC) has issued the guidelines about the adoption of IFRS by the companies in USA. by year 2014 companies are required to shift from US GAAP (US globally accepted accounting policies) to IFRS in a gradual manner. SEC plans to have complete adoption of IFRS by the year 2016.

## Keywords

IFRS, Convergence, Share based payment, Business combination, Insurance Contracts, Schedule VI

## INTRODUCTION

Accounting standards issued by ASB under the consultation and approval by ICAI have a legal status and every company subject to the coverage of the standards is required to abide by the provisions of accounting standards while preparing its books of accounts and presenting annual accounts – financial statements. Section 211 of companies act 1956 require that every company should comply with the necessary accounting standards

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while presenting its balance sheet and profit and losses account. Companies are also required to report the deviation from accounting standard, if any while presenting financial statements.

Ind-AS refers to near final Indian Accounting Standards corresponding to IFRS (International Financial Reporting Standards). This is like last milestone before final draft of the Indian Accounting Standards in compliance with IFRS is introduced. In January 2011 ICAI (Institute of Chartered Accountants of India) prepared the exposure draft of Indian Accounting Standards (Ind-AS) called as near final Indian Accounting standards converged with International Financial Reporting Standards (IFRS). Subsequently in the month of February Ministry of Corporate Affairs notified the same with few changes. These are to be enforced very soon from the year 2011-12.

### **IFRS Implementation – Convergence Between GAAP and IFRS**

IFRS (International Financial Reporting Standards) is like a universal language of accounting to bring uniformity in GAAP of different countries. Adoption and implementation of IFRS worldwide is increasing day by day. So far around one hundred fifty countries have shown their inclination to adopt IFRS by the early implementation date i.e. by the end 2011. The implementation of IFRS requires to set transition date and first reporting date. It also requires the companies to present at least one comparable set showing comparative financial statement presented under Indian GAAP and under IFRS so as to facilitate proper interpretation.

#### ***Adoption of IFRS in USA***

Securities and Exchange Commission (SEC) has issued the guidelines about the adoption of IFRS by the companies in USA. It has decided a timeline year 2014 by this date companies are required to shift from US GAAP (US globally accepted accounting policies) to IFRS in a gradual manner. SEC plans to have complete adoption of IFRS by the year 2016.

#### ***Adoption of IFRS in India***

In the year 2006 ICAI in India expressed its acceptance for the implementation of IFRS. To comply with this ICAI has started IFRS convergence project in India which specifies that all the relevant accounting standards in compliance with IFRS shall be introduced and implemented from the timeline of April, 2011.

ICAI has set the first transition date April 2010 from this date companies should start adopting IFRS and first reporting date has been set as March, 2012 by which first set of financial statements as per IFRS should be published by Indian companies.

Initially listed companies will be required to comply with IFRS. Ministry of corporate affairs of Government of India has constituted two high powered committees to give feedback to government about the implementation status and make the implementation possible by the early transition date and early reporting date.

Recently in January 2011 ICAI has released the draft of near final Indian accounting standards corresponding to IFRS. These have been named as “Near Final Ind-As”. These provide a broader spectrum to accounting framework for Indian companies working in India at the same time these facilitate the convergence of Indian accounting standards with IFRS.

### Adoption of IFRS in Europe

European countries have made the implementation from April, 2005 onwards so as to meet the deadline of convergence of European GAAP with IFRS at an early implementation date.

### NEAR FINAL IND-AS CORRESPONDING TO IFRS

With the announcement of IFRS and implementation of IFRS across the globe the standard setting body in India – Council of the Institute of Chartered Accountants of India (ICAI) has recently finalized the draft of Indian Accounting Standards (Ind-AS) these have been debated widely and discussed among the experts. ICAI has come out with near final Indian accounting standards (Ind-AS) corresponding to IFRS. These are subject to any changes, which may be made by the Government before issuing notification for the implementation of these standards. These are as follows

**Table 1: Comparative View of Near Final Ind-AS and IFRS**

Ind-AS	Heading	Corresponding IFRS/IAS
Ind-AS 101	First-time Adoption of Indian	IFRS 01
Ind-AS 102	Share based payments	IFRS 02
Ind-AS 103	Business combinations	IFRS 03
Ind-AS 104	Insurance contracts	IFRS 04
Ind-AS 105	Non-current assets held for sale and discontinued operations	IFRS 05
Ind-AS 106	Exploration for and evaluation of mineral resources	IFRS 06
Ind-AS 107	Financial instruments: disclosure	IFRS 07
Ind-AS 108	Operating segments	IFRS 08
Ind-AS 1	Presentation of financial statements	IAS 1
Ind-AS 2	Inventories	IAS 2
Ind-AS 7	Statement of cash flows	IAS 7
Ind-AS 8	Accounting policies, changes in accounting estimates, and errors	IAS 8
Ind-AS 10	Events after the reporting period	IAS 10
Ind-AS 11	Construction contracts	IAS 11

Ind-AS 12	Income taxes	IAS 12
Ind-AS 16	Property, plant and equipments	IAS 16
Ind-AS 17	Leases	IAS 17
Ind-AS 18	Revenue	IAS 18
Ind-AS 19	Employee benefits	IAS 19
Ind-AS 20	Accounting for government grants	IAS 20
Ind-AS 21	The effects of changes in foreign exchange rates	IAS 21
Ind-AS 23	Borrowing costs	IAS 23
Ind-AS 24	Related party disclosure	IAS 24
Ind-AS 27	Consolidated and separate financial statements	IAS 27
Ind-AS 28	Investments in associates	IAS 28
Ind-AS 29	Financial reporting in hyperinflationary economies	IAS 29
Ind-AS 31	Interest in joint ventures	IAS 31
Ind-AS 32	Financial instruments: Presentation	IAS 32
Ind-AS 33	Earning per share	IAS 33
Ind-AS 34	Interim financial reporting	IAS 33
Ind-AS 36	Impairment of Assets	IAS 36
Ind-AS 37	Provisions, contingent liabilities and contingent assets	IAS 37
Ind-AS 38	Intangible assets	IAS 38
Ind-AS 39	Financial instruments: Recognition and measurement	IAS 39
Ind-AS 40	Investment property	IAS 40

(compiled by author)

Out of these Ind-AS 101 to Ind-AS 108 and IFRS 01 to IFRS 08 are recently issued accounting standards. The details about IFRS 01 to IFRS 08 has been provided in the chapter seventeen on Accounting Standards and IFRS and accounting standards. Therefore, we present herewith details about Ind-AS 101 to Ind-AS 108 and a comparison of these with IFRS 01 to IFRS 08 at the end.

## Ind-AS 101 – First-time Adoption of Indian Accounting Standards Corresponding to IFRS 01

This new Indian accounting standards corresponds to IFRS 01 it deals with the aspects relating to complete set of financial statements of India accounting standard – presentation of financial statements. According to it a complete set of financial statement comprises:

- (a) A balance sheet as at the end of current accounting period and as at the end of previous accounting period.
- (b) A statement of profit and loss for the period.
- (c) A statement of cash flow for the period.
- (d) Notes, comprising a summary of significant accounting policies and other explanatory information.

Further it emphasizes on the presentation of true and fair view and compliance with Ind ASs. The entity following Ind As shall make an explicit statement of such compliance in notes to accounts. When preparing financial statements, management shall follow the following concepts

- Going concern concept
- Accrual basis of accounting
- Materiality and aggregation of facts
- No offsetting of facts

Taking the lead from near final Ind-AS Ministry of Corporate Affairs (MCA) introduced an important amendment to companies act by introducing “New Schedule VI to Companies Act, 1956. The revised schedule is applicable for the accounting year commencing on or after 01<sup>st</sup> April, 2011.

Schedule VI to Companies Act, 1956 contains the provision for format and contents of the financial statements presented by a company. It specifies the items to be disclosed in (i) balance sheet and (ii) statement of profit and loss presented by a company.

The provisions of revised schedule are flexible with respect to their adoption. The compliance requirements set out in the revised schedule are in addition to the disclosure requirements set out in the accounting standards and provisions of companies act as applicable. Revised schedule is flexible in the sense that in all the circumstances provisions of accounting standards and companies act shall be considered superior to the provisions of revised schedule.

The old schedule allowed vertical as well as horizontal form of presentation of balance sheet but new schedule permits only vertical form of presentation of balance sheet. In the old schedule major headings in the balance sheet were ‘sources of funds’ and ‘application of funds’ whereas in the new schedule these have been replaced by ‘equity and liabilities’ and ‘assets’ respectively.

(compiled by author)

### **Ind-AS 102 Share-based Payment Corresponding to IFRS 02**

The purpose of this accounting standard is to specify the provisions to be followed by an entity making share-based payment transactions. The provisions provide for the following

- Transactions in which services are received and settlement for these is done in shares.
- The value of transactions is measured with reference to the fair value of the equity instruments granted.
- Treatment of vesting conditions with reference to the issue of share-based payment.
- Treatment of non-vesting conditions with reference to the issue of share-based payment.
- Cash settled share-based transactions.
- Non-cash settled share-based transactions.
- Recognition and measurement of share-based payment transactions.

### **Ind-AS 103 Business Combinations Corresponding to IFRS 03**

The objectives of this Indian Accounting Standard (Ind AS) is to have an improved relevance, reliability and comparability of the information that a reporting business entity should provide while presenting financial statements after business combination or amalgamation of companies. The provisions provide for the following

- Scope of business combination, recognition and measurement criterion.
- Recognition and measurement of identifiable assets acquired and liabilities assumed in a business combination transaction.
- Recognition and measurement of goodwill and other intangible assets acquired pursuant to business combination.
- To present fair view of financial position pursuant to business combination so as to facilitate true interpretation of the post amalgamation financial statements.
- Details of bargain purchase and recognition of goodwill or gain resulting from bargain purchase.
- Business combination achieved without the transfer of consideration.
- Business combination costs and accounting effect of such costs.

### **Ind-AS 104 Insurance Contracts Corresponding to IFRS 04**

The objective of this Indian Accounting Standard is to specify the reporting standards for insurance contract to be adopted by a business entity doing insurance business i.e. an insurer. The provisions deal with the following

- Embedded derivatives.
- Unbundling of deposit component from an insurance contract.
- Recognition and measurement of insurance contracts.
- Liability adequacy test for an insurer who issue and re-issues insurance contracts.
- Impairment of reinsurance assets.
- Insurance contracts acquired in a business combination transaction.
- Discretionary participation feature in an insurance contract and in a financial instrument.

- Nature and risk arising from an insurance contract.

### **Ind-AS 105 Non-current Assets Held for Sale and Discontinued Operations Corresponding to IFRS 05**

The objective of this standard is to specify the accounting provisions for assets held for sale and the presentation and disclosure of discontinued operations. It specifies the provisions for the recognition and measurement of assets held for sale and accounting for discontinued operations. The main provisions cover the following

- Recognition and measurement of non-current assets held for sale and relating to discontinued/discontinuing operations.
- Recognition and measurement of impairment loss relating to above mentioned assets.
- Reversal of impairment loss relating to above mentioned assets.
- Gain/loss relating to discontinuing operations.

### **Ind-AS 106 Exploration for and Evaluation of Mineral Resources Corresponding to IFRS 06**

The objective of this Indian accounting standard is to set out the norms for financial reporting and accounting relating to “exploration for and evaluation of mineral resources”. It provides for the following

- Recognition of assets by such companies that are engaged in exploration and evaluation practices.
- Recognition of impairment loss by these companies should be done as per the provisions of AS – 36.
- Provision relating to the identification of assets and equity relating to exploration business.

### **Ind-AS 107 Financial Instruments: Disclosures Corresponding to IFRS 07**

The main focus of this accounting standard is to provide disclosure standards to be followed while presenting financial statement. Accordingly, companies are required to disclose the nature and extent of risk arising from financial instruments to which the entity is exposed during the reporting period and at the end of the reporting period.

It also specifies the guidelines as how such risk is to be managed. The provisions of this Indian accounting standard complement with the principles specified in Ind AS 39 – Financial Instruments: Recognition and Measurement and Ind AS 32 Financial Instruments Presentation. It covers the following

- Identification of classes of financial instruments disclosed in the balance sheet.
- Level of disclosure about different classes of financial instruments.
- Significance of financial instruments in interpreting financial position and financial performance.
- Nature and extent of risk relating to financial assets and financial liabilities.
- Classification of financial assets and financial liabilities at fair value through profit and loss.
- Recognition, measurement and derecognition of financial assets and financial liabilities at fair value through profit and loss.
- Provisions relating to the recognition, measurement and derecognition of compound financial instruments and embedded derivatives.

## Ind-AS 108 Operating Segments Corresponding to IFRS to 08

The main provisions of this standard relate to identification of operating segments and reporting segments while presenting financial position of a business entity. The provide for the following

- Identification of operating segments by a business enterprise while presenting financial statement.
- Identification of reporting segments by a business enterprise while presenting financial statement.
- Disclosure of information about major products and services of the reporting entity.
- Disclosure of information about geographical areas and major clients of the reporting entity.
- Aggregation criterion and quantitative criterion for reporting segments.

## COMPARISON OF Ind-AS AND IFRS

Introduction of Ind-AS is in compliance with IFRS. The primary objective of this is to have uniformity in accounting standards across the globe. However, a close scrutiny of Ind-AS and IFRS reveals certain differences these have been depicted in the table given below.

**Table 2: Showing Comparison of Ind-As and IFRS**

Heading	Ind AS	IFRS
Date of Transition (Ind-AS 101 vs. IFRS 01)	Date of transition is the beginning of the current period.	Date of transition is the earliest period for which an entity presets full comparative information.
Compulsion of Comparative Financial Statements (Ind-AS 101 vs. IFRS 01)	It is not compulsory to present a comparative financial statement. It provides an option to present comparative financial statements in accordance with Ind-AS on a memorandum basis.	It is compulsory to present comparative financial statement at the time of first-time adoption of IFRS.
Disclosure about non-specific information (Ind-AS 101 vs. IFRS 01)	If an entity presents certain historical summaries and information as per old standards then such disclosure is not compulsory.	If an entity presents certain historical summaries and information as per old standards then such disclosure is compulsory to facilitate comparison.
Terminology (All Ind-AS)	It uses 'balance sheet'	It uses 'Statement of

vs. All IFRS)		Financial Position’.
Terminology (All Ind-AS vs. All IFRS)	It uses ‘statement of profit and loss’	It uses ‘statement of comprehensive income’.
Terminology (All Ind-AS vs. All IFRS)	‘Approval of financial statements for issue’ has been used.	‘Authorization of the financial statements for issue’ has been used.
Business Combination – Gain/loss from bargain purchase (Ind-AS 103 vs. IFRS 03)	Such gain/loss is to be recognized in comprehensive income.	Such gain/loss to be recognized in profit and loss account.

(compiled by author)

Despite of these difference Ind-AS can be considered as a step ahead in making convergence of Indian Accounting Standards with IFRS once implemented these will prove to be of great help for Indian companies going global.

## Conclusion

Accounting standards work as guidelines for maintaining books of accounts. These aim at bringing in uniformity in the preparation and presentation of books of accounts across the country and boundaries. Convergence of Indian Accounting Standards with International Financial Reporting Standards is one step forward to facilitate the entry of Indian companies in the global market like that of US and other developed countries. At the same time, it will help in maintaining full disclosure and transparency of books of accounts particularly disclosure for public. Such disclosure is likely to reduce the incidences of insider trading and malpractices in reporting.

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